

VZCZCXRO0531  
PP RUEHMA RUEHPA  
DE RUEHOS #0551/01 2151201  
ZNR UUUUU ZZH  
P 031201Z AUG 07  
FM AMCONSUL LAGOS  
TO RUEHC/SECSTATE WASHDC PRIORITY 9296  
INFO RUEHUJA/AMEMBASSY ABUJA 9086  
RUEHWR/AMEMBASSY WARSAW 0485  
RUEHCD/AMCONSUL CIUDAD JUAREZ 0464  
RUEHIT/AMCONSUL ISTANBUL 0463  
RUEHZK/ECOWAS COLLECTIVE  
RUCPDO/DEPT OF COMMERCE WASHDC  
RULSDMK/DEPT OF TRANSPORTATION WASHDC  
RHEBAAA/DEPT OF ENERGY WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEAIIA/CIA WASHINGTON DC  
RHEFDIA/DIA WASHDC

UNCLAS SECTION 01 OF 02 LAGOS 000551

SIPDIS

SIPDIS

SENSITIVE

DEPT PLEASE PASS TO USTR; OPIC FOR JAMES WILLIAMS; USTDA FOR PIERCE  
DAVIS

E.O. 12958: N/A

TAGS: [ECON](#) [PGOV](#) [EINV](#) [PREL](#) [NI](#)

SUBJECT: KEY ECONOMIC OBSERVER CAUTIONS AGAINST "IRRATIONAL  
EXUBERANCE"

REF: LAGOS 549

LAGOS 00000551 001.2 OF 002

11. Summary: In a July 17 meeting with Trina Rand, International Economist, and Michael Ruffner, Director, Office of Technical Assistance, U.S. Department of Treasury, Financial Derivatives Chief Executive Officer (CEO) Bismarck Rewane described some of the risks in the Nigerian economy. While Rewane was generally optimistic, he felt the risks were not well-understood by even some key stakeholders. These included an overvalued and highly leveraged stock market and insufficient regulation to stem borrowing for speculative purposes. End summary.

12. In a July 17 meeting with Trina Rand, International Economist, and Michael Ruffner, Director, Office of Technical Assistance, U.S. Department of Treasury, Financial Derivatives Chief Executive Officer (CEO) Bismarck Rewane said the Nigerian economy faced a number of risks that were poorly understood by even some key stakeholders. Representatives of the banking sector and a private equity fund, with whom Rand and Ruffner had earlier met (reftel), expressed unbounded optimism about the economy. This was illustrative of general attitudes in the financial sector, said Rewane, and an understanding of risks was critical if Nigeria wanted to avoid capital flight.

-----  
Stock Market Is Overvalued; Interest Rates Are Too Low  
-----

13. Rewane admitted that he represented a minority opinion, describing what he termed the "irrational exuberance" of the stock market, which he thought was "grossly overvalued" and manipulated by the new oligarchy, such as Aliko Dangote. The Central Bank of Nigeria had driven interest rates too low, which discouraged savings and, instead, pushed investment toward the stock market. Rewane also doubted the veracity of the Federal Government's inflation statistics. The Bureau of Statistics claimed that year-on-year inflation in May was 4.6 percent while the monthly moving average was 6 percent. (Note: This resonates with comments Econoff has heard from other economic observers, who believe inflation is actually in the double digits. End note). Rewane said an overvalued naira was

inconsistent with the intention of moving away from oil dependence.

¶4. Asked whether these pressures were sustainable, Rewane said he was skeptical of Nigeria's ability to absorb the excess liquidity in the market. While there was great need for investment in infrastructure, the resources available for this were inadequate. Rewane suspected the federal government would borrow again soon for this purpose.

-----  
Economy Is Too Highly Leveraged; Regulation Insufficient  
-----

¶5. According to Rewane, capital market regulators were irresponsible. He warned, for instance, that insufficient regulation enables banks to lend on the margins for speculative purposes. Stock brokers are leveraging their debt several times over without regulation from the Nigerian Stock Exchange (NSE). These excesses could be addressed by tighter regulation by the Central Bank of Nigeria (CBN), NSE, and pension fund commissioners. For instance, the Securities and Exchange Commission should keep stock brokers from leveraging numerous times; and the government should force pension funds to comply with existing regulation. Rewane noted that the country faces both political will and capacity shortages in terms of more prudential capital markets regulation. He explained that some regulators have a conflict of interest.

¶6. Of CBN Governor Charles Soludo, Rewane said his business economics skills were limited, which prevented him from fully assessing risk for lenders and borrowers. When it came to financial economics, however, he was "very clever."

¶7. Remarking on the new political environment, Rewane believed the administration would be under pressure to reorient the bureaucracy toward the north, which would result in a more bloated and less

LAGOS 00000551 002.2 OF 002

efficient government bureaucracy. This, he argued, had been characteristic administrations headed by a northerner. These tendencies would eventually lead the administration to tap into the excess crude account. Rewane also questioned the government's priorities in deepening economic reform.

¶8. Rewane emphasized he was not pessimistic about the economy. Rather, if the Nigerian economy was to achieve the growth rates the Federal Government wanted, it would be critical to first understand the potential risks looming on the horizon.

¶9. Trina Rand and Michael Ruffner cleared this cable.